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FISCAL IMPACT STATEMENT

LS 6613 | **NOTE PREPARED:** Jan 2, 2012
BILL NUMBER: SB 365 | **BILL AMENDED:**

SUBJECT: Uses for Individual Development Accounts.

FIRST AUTHOR: Sen. Breaux | **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X GENERAL | **IMPACT:** State
X DEDICATED
FEDERAL

Summary of Legislation: This bill specifies that money deposited into an individual development account (account) may be used to purchase or repair an automobile that is or will be used by a qualifying individual or the individual's dependent to pursue educational, training, or employment opportunities. The bill specifies that money withdrawn from an account and used for this purpose is not subject to the Adjusted Gross Income Tax.

Effective Date: July 1, 2012.

Explanation of State Expenditures: *Summary*: By expanding the possible asset purchases that are eligible under the Individual Development Account (IDA) program to include the purchase or repair of automobiles, this bill may increase the number of individuals who are interested in creating an IDA. If this bill increases the number of individuals who participate in the IDA program, state expenditures to provide match dollars may increase.

Actual increases in state expenditures will depend on (1) the total increase in demand for IDAs, (2) the number of IDA participants that deposit a minimum of $400 per year in their IDA, and (3) the amount of match money provided from state funding. Actual increases are indeterminable and would be subject to available funding. This bill does not contain an appropriation.

Additional Information: *Individual Development Accounts*: Individual Development Accounts, established by IC 4-4-28, are accounts in financial institutions administered by community development corporations that allow individuals to deposit money for the purposes of tuition, books, and other expenses incurred at a postsecondary institution, vocational school, or training program. Deposits may also be made to purchase a primary residence, to reduce the principal owed on a primary residence, for remodeling or repair of a primary residence, or to begin or to purchase part or all of a business or to expand an existing small business. Money deposited in these accounts may be matched by the state, financial institutions, corporations, and other entities. If the contribution is at least $100 but less than $50,000, a tax credit may be claimed for 50% of the contribution. No more than $200,000 in tax credits may be claimed in any state fiscal year.

For tax year 2009, 95 individuals claimed about $40,500 in Individual Development Account credits. Fewer than five corporate filers claimed about $25,000 for tax year 2009.

State Match for IDA Savings: The Indiana Housing and Community Development Association (IHCDA), financial institutions, corporations, and other entities provide a match for money saved in IDAs. For the first $400 dollars an IDA participant saves per year, the state of Indiana shall provide a 300% match (for a total state expenditure of $1,200 per IDA participant per year). In the event that an IDA participant saves in excess of $400 in a given year, and up to $800 in the same year, the state may match excess savings at the 300% rate (depending on fund availability). The IHCDA currently provides the matching incentive for either (1) a maximum duration of four years or (2) a maximum state expenditure of $4,800 for a particular IDA, whichever comes first.

The state contributes $1 M per fiscal year to the IHCDA for IDA contributions. The IHCDA reports this $1 M appropriation is used to leverage an additional $1 M from the federal Assets for Independence (AFI) program. The IHCDA reports the total annual budget for *state* IDA contributions is $2 M annually (which includes the $1 M state appropriation and the $1 M federal match under the AFI program). This amount does not include matching payments made by nonstate institutions that participate in the IDA program.

The current eligibility requirements to participate in the IDA program are to either receive assistance under the Temporary Assistance for Needy Families (TANF) program or to have a household income less than 175% of the federal poverty level (FPL). The IHCDA reports approximately 300 to 450 new IDAs are established annually. Statutorily, a maximum of 1,000 new IDAs can be established annually. If this bill increases the number of requests for IDAs, the IHCDA can only establish an additional 550 to 700 IDAs per year for new program applicants.

The IHCDA reports the total funds available for IDA matches is enough to provide match funding for approximately 1,300 IDA participants per year (new IDA participants and those who have yet to meet either the 4-year maximum participation or the maximum contribution). If this bill increases the number of IDA participants, the IHCDA reports additional appropriations will be necessary to provide the minimum match amount required by law. However, if the amount appropriated by the General Assembly is insufficient to provide the full 300% match amount for IDA participants that qualify for a savings match, current statute requires the IHCDA to proportionately reduce the state match for all qualifying accounts.

Estimating State Cost for IDA Match: Using statistics obtained from the Indiana Institute for Working Families for FY 2010, approximately 94% of IDA participants met the $400 minimum annual deposit to be eligible for the 300% state match (an expenditure of $1,200). Assuming the same ratio of new IDA participants meet the $400 minimum deposit requirement, a maximum of 517 to 658 IDA participants per year will be eligible for the $1,200 IDA match.

For FY 2010, 1,053 IDA accounts received matching funds. It is assumed the IHCDA may be able to provide the state match for approximately 250 additional IDA participants under their current level of appropriations.

Thus, the state may provide matching contributions for an additional 267 to 408 IDA participants per year or proportionately reduce the state match to qualifying IDA participants to within the program's appropriation. Assuming the changes in the bill increase annual IDA participation so that the maximum number of IDAs are established annually (and the state match contribution to IDA participants is not proportionately reduced to qualifying IDA participants), this bill is expected to require an additional $320,000 to $490,000 per year to provide the 300% match for IDA participants who meet the savings requirements under the program. This estimate assumes there are no additional contributions made by nonstate institutions participating in the IDA program.

Actual increases in state expenditures are unknown, but will depend on (1) the total increase in demand for IDAs, (2) the number of IDA participants that save a minimum of $400 per year, and (3) the amount of match money provided from state funding. Actual increases are indeterminable. This bill does not contain an appropriation, so the level of additional expenditures would be subject to current appropriation levels.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: IHCDA.

Local Agencies Affected:

Information Sources: Jacqueline Troy, IHCDA, 232-3560; Indiana Institute for Working Families, August 2011 Policy Brief.

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